



**Investment Office**

P.O. Box 2749

Sacramento, CA 95812-2749

Telecommunications Device for the Deaf - (916) 795-3240

(916) 795-3400

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**AGENDA ITEM 4**

**TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE**

- I. SUBJECT:** Revision of Policy on Asset Allocation Strategy to include parameters for temporary deviation from policy ranges
- II. PROGRAM:** Asset Allocation
- III. RECOMMENDATION:** Recommend to the Investment Committee approval of the revised Statement of Investment Policy for Asset Allocation Strategy
- IV. ANALYSIS:**

The changes to the policy are as follows:

Section V.A Asset Class Policy Targets and Ranges

The asset class policy ranges have been changed to reflect the expanded ranges approved by the Committee in December 2008. The expanded ranges were approved to accommodate the extreme volatility experienced in recent months as well as urgent liquidity needs and are temporary. The Committee will select new targets and ranges as appropriate based on the Asset Allocation Review to be conducted by June 2009.

#### Section VI.B Investment Approaches and Parameters – Implementation

Alternative language was substituted in the first paragraph of VI.B to be consistent with all policies. The existing 5% limitation for cumulative quarterly adjustment in allocation to either Global Equity or Global Fixed Income was deleted since the ranges have been expanded and the limit would be higher based on 50% of the expanded range.

#### Section VI.G.2 Investment Manager Guidelines

Reference to various policies in Subsections a to c have been deleted because the paragraph above requires compliance with “all applicable CalPERS Investment Policies,” and is redundant.

#### Section VII.C.3.c Counterparty Risk

Settlement time for swaps is increased from “monthly” to “quarterly or more frequently.” This change is required because some currency swaps have a quarterly settlement period and this flexibility is needed for the currency program.

#### Section VII.D Leverage

This section was updated to be consistent with the leverage language specified in other policies, hence the \$500 million limit was deleted.

Staff considered possible changes to Section III, Responsibilities in order to more clearly define specific staff responsibilities, and a robust process for asset allocation management and capital commitments for private investments. The SIO – Asset Allocation will seek direction from the incoming CIO and then propose appropriate changes to Section III.

The consultant opinion letter (Wilshire) is Attachment 2.

### **V. STRATEGIC PLAN:**

This item supports Goal VIII, to manage the risks and volatility of assets and liabilities to ensure sufficient funds are available, first to pay benefits and, second to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

There are no costs associated with this item.

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Raymond Venner  
Portfolio Manager  
Asset Allocation

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Farouki Majeed  
Senior Investment Officer  
Asset Allocation

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Kenneth W. Marzion  
Interim Chief Operating Investment Officer